A review by the **Federal Reserve Bank of Chicago**

Business Conditions

1959 May

Contents

THE Trend OF BUSINESS

The first third of 1959 revealed a picture of expanding business activity in nearly all areas and nearly all lines. Differences by region and industry relate almost exclusively to the degree of improvement rather than whether or not some betterment has occurred.

Activity showed great vigor in the January-March quarter. This is apparent when comparisons are made with either the somewhat depressed year-ago levels or the vastly improved rates of the fourth quarter of last year. The sluggishness noted in the early months of several recent years was absent in 1959.

Retail sales, seasonally adjusted, were up 8 per cent from the year-ago total in the first quarter and 3 per cent from the improved level of the final period of 1958. Construction put in place was 12 per cent higher than year ago and 4 per cent above the October-December quarter. In February, new orders received by manufacturers, reflecting largely but not exclusively the sharp gains in primary metals, were 24 per cent above a year ago and 7 per cent higher than in December. Employment gains have been excellent during the first quarter and significant reductions in the jobless total have occurred (see pp. 6 to 11). Finally, personal income in March was at a rate 20 billion dollars or 6 per cent above that of twelve months earlier. Nearly half of this rise occurred in the first quarter of 1959.

As midyear approaches, the principal uncertainties in the business outlook pertain to the possibility of major work stoppages, the relatively large inventories of steel and automobiles, and the upward pressures on certain consumer and wholesale prices. Uncertainty, of course, is an ever-present feature of the business scene, even during periods of strong uptrends.

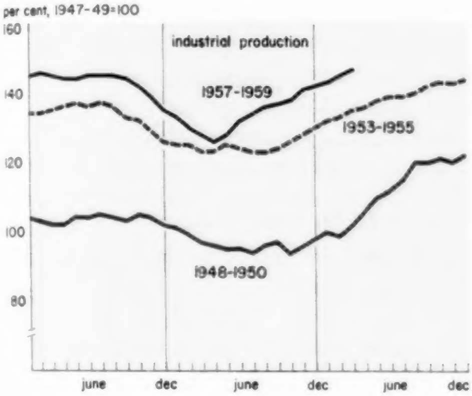
Most categories show gains in construction activity

	First quarter 1958	First quarter 1959	Per cent change
	(million dollars)		
Residential	3,420	4,347	+10
Industrial	761	501	−34
Commercial	790	795	+1
Utilities	1,176	1,186	+1
Other private	941	979	+4
Public	2,686	3,125	+16
Total	9,774	10,933	+12

Credit buying revives

Consumers have once more been increasing their use of instalment credit. For the first nine months of 1958, consumer instalment credit declined by over 700 billion dollars on a seasonally adjusted basis. This was only about 2 per cent of outstandings at the

Total industrial output reached new high in March



Housing starts spurt in business revivals

start of the year. But such a decline was unprecedented in the postwar period. Basically, this development reflected consumer caution in the face of an uncertain outlook for jobs and income. It was particularly significant in the case of automobiles.

In November 1958, instalment credit increased slightly, but, in each of the three succeeding months, the increase in outstandings exceeded 300 million dollars per month, seasonally adjusted. If continued for an entire year, this rise would be much larger than the increases in 1956 and 1957 but would fall far short of the spectacular automobile year of 1955.

Thus, credit use figured appreciably in the 13 per cent increase in sales of durable goods stores at retail and the 24 per cent rise in retail deliveries of domestically produced new cars in the first quarter. Nevertheless, the proportion of new cars sold on credit was 56 per cent in the first two months of the year. This is about the same as in the corresponding period of 1957 but is a somewhat lower proportion than last year.

Credit buying of automobiles has been encouraged by an increasing willingness of lenders to lengthen maturities on instalment contracts. In early 1959, almost half of the loans on new cars granted by a sample of Midwest banks called for payments over periods exceeding 30 months. Two years ago less than 10 per cent of the contracts were written for terms beyond two and one-half years. In the Chicago area, the over-30 month category has accounted for only about 20 per cent of all new car loans recently. But maturities of that length were virtually nonexistent in Chicago two years ago. As in the case of mortgage loans, Midwest bankers have been somewhat more conservative in stretching maturities than their counterparts elsewhere in the nation.

Housing activity at high level

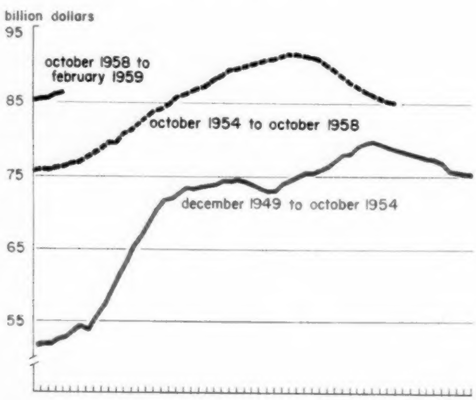
For the first three months of the year, new private housing starts are estimated at 288,000. This is 40 per cent more than in the corresponding period last year. Moreover, it is equal to the record of the same

months of 1955 and somewhat higher than the equivalent period of 1950. These last-named years were, by some margin, the highest on record for home building, both for the first quarter and on an annual basis.

Conventional financing has been carrying the main burden of the rise in home construction. Only about 30 per cent of the housing starts in early 1959 were financed by FHA or VA mortgages. In the corresponding period of 1955, about 50 per cent of all mortgages were insured or guaranteed. FHA-insured financing accounted for about the same proportion, approximately 20 per cent, in both years. VA loans, on the other hand, which are restricted to a maximum interest rate of 4¾ per cent, have accounted for only 8 per cent of the total in the current year, compared with 30 per cent in the early months of 1955.

The VA loan has never been as significant in the Midwest as in some other areas of the nation such as the West and Southwest. Here, as elsewhere, conventional mortgage money seems to be readily available, although rates

Inventory build-up under way—will it rival earlier upswings?



continue to strengthen and the 6 per cent loan has become increasingly common. More and more the large-scale builder who is able to develop new tracts of land is becoming a vital factor in the Midwest. These builders depend on working arrangements with one or more financial organizations to furnish sizable blocks of capital for financing the construction and purchase of new homes.

Inventories rise further

Aggregate business inventories began to rise in the fourth quarter of 1958. Through February, however, the pace of the inventory increase had not yet exceeded the rate of rise in business sales. This was true even in the durable manufacturing industries when taken as a group.

In the 1954-57 period, total business inventories rose consistently for almost three years. The duration of this movement was not untypical of business upswings. In early 1959, the book value of total business inventories was about 1.5 times current sales. This relationship is about the same as it was in the spring of 1955 and well below the ratio prevailing in most other recent years.

In the first quarter of 1959, inventory growth was contributing to aggregate demand for goods at a moderate annual rate of about 4 billion dollars, not far from the long-run growth trend. This is about the rate of rise which developed in the early months of 1955. In that year, a further increase to a rate of about 7 billion dollars occurred. But inventory policy has probably already played its major role in the business revival. From the first quarter of 1958 to the first quarter of 1959, the switch from inventory liquidation to accumulation accounted for about one-third of the 38 billion rise in the annual rate of output of goods and services. Thus, by far the largest share of the

impact from the turn in the inventory cycle has already been absorbed. In fact, attention has centered recently on the prospective reductions in inventories of steel and autos.

On April 1, auto dealers had 830,000 domestically-produced cars on hand or in transit. This was only 30,000 less than the previous year. But since sales in March were a third greater than last year, this supply represented only 44 days' sales as compared with 62 a year ago.

The auto sales picture has been mixed. Some models, particularly smaller cars, have been in strong demand, while inventory-induced production cutbacks for some models were occurring as early as February. In general, the auto inventory situation appears about as comfortable as in any year since 1955.

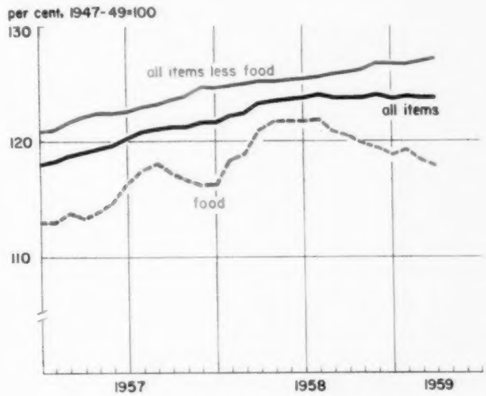
According to *Iron Age,* additions of about 5 million tons will be made to user stocks of finished steel in the second quarter. Accretions of this magnitude, it is believed, would bring the total up to about 20 million tons. Although many users of steel are building their holdings to a 90- or 100-day supply, others are maintaining only normal requirements or less, either because they do not expect the supply to be cut off or because they are unable to order steel for delivery before the strike deadline.

The over-all impact of an important steel strike or a large inventory build-up followed by liquidation without a strike will be known only in retrospect. Nevertheless, it is of interest to note that the steel strikes of 1949. 1952 and 1956 did not prevent a further rise in general activity to new highs after the settlements were reached.

Is price stability threatened?

During the twelve-month period ending in March, the indexes of consumer and wholesale prices, the major barometers of "the purchasing power of the dollar," have traced almost perfectly horizontal lines. Individual prices have risen or fallen during the period, but these movements have tended to offset one another.

Average consumer prices steady since early 1958 as food declines offset further rise in other items



In mid-April, market prices for hogs, sugar, wheat and coffee were appreciably below last year. Copper, tin, rubber and, particularly, hides were considerably higher. Recently, wholesale prices on building materials, clothing and shoes have been increased by amounts ranging up to 10 per cent at wholesale. Declines have occurred in the case of petroleum products and steel scrap.

Under the competitive conditions that are expected to prevail in the months ahead, price changes in both directions undoubtedly will continue. During recent months, the offsetting movements of declining food prices and rising prices for services and industrial commodities have resulted in stability in the over-all price indexes.

Employment gains in Midwest and nation

Employment, rising from the winter low, showed much more than a seasonal gain in March. The improvement reflected a very sharp rise in construction and other outdoor activities, expanding employment in primary metals and most metal-working industries, and modest but widespread increases in many other sectors.

As of mid-March, 63.8 million persons were at work. This was 2.4 per cent, or 1½ million, above March 1958 and nearly equal to the record March level of 1957. And the picture is expected to show additional improvement. Secretary of Labor, James P. Mitchell, has estimated that employment by October will reach 67 million with unemployment falling below 3 million. These projections compare with 65.3 million employed and 3.8 million unemployed in October 1958.

While the total number of persons at work has recently returned to approximately the pre-recession level, the civilian labor force—number employed plus those seeking work—has grown by about 1.4 million during the two years, March 1957 to March 1959. Consequently, as of mid-March, unemployment, seasonally adjusted, was equal to 5.8 per cent of the labor force, compared with 3.9 per cent in March 1957.

An important factor in the continued relatively high unemployment has been the failure of industrial employment to regain and surpass its pre-recession level. Although total output of manufacturing firms set new record highs in February and March, total employment in manufacturing was about 6 per cent below the March 1957 figure. Output of nondurables as a group is well above the previous record output, having regained its prerecession volume as early as last summer. Output of durables (very important in most Midwest areas), however, was still somewhat below the seasonally adjusted record set as far back as December 1956.

Output and employment in major manufacturing industries are compared in the accompanying chart over one-year and two-year periods. March 1957 was near the prerecession peak for total manufacturing output. March 1958 was close to the recession low.

In March of the current year, employment in all major industry groups, except furniture and chemicals, was below the figure of two years ago. However, production was appreciably higher in all industry groups except machinery and transportation equipment. Comparisons with one year ago show some rise in employment for all categories and production increases ranging between 7 and 62 per cent.

Increases in manufacturing and construction employment in recent months have played a key role in reducing the number of unemployed males 25 years of age and over. Since the number of adult males in the labor force has been relatively constant in recent years, any changes in employment have about an equal effect on unemployment in this sector of the labor force. Longer-term unemployment continued relatively high in

March with 1.5 million persons reported as having been out of work for 15 weeks or longer. This type of unemployment tends to be concentrated among workers formerly employed in durable goods industries and among those over 45 years of age.

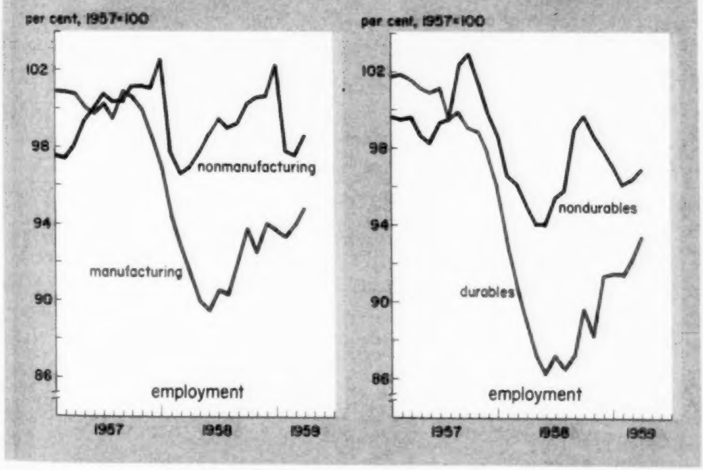
Labor markets classified

As an aid in appraising employment trends in local areas, the Bureau of Employment Security prepares a bimonthly classification of labor markets. For each labor market area, a number of factors, including the ratio of unemployment to total labor force, expected labor requirements in the next two to four months and the probable effects of seasonal or temporary factors, are evaluated. A letter designation—A, B, C, D, E or F—is assigned to each area to characterize the over-all composite of information.

The classification of major labor areas in the Seventh District is shown in the accompanying table for three selected periods. The March 1957 designation reflects labor market conditions in these District centers before the impact of recession was evident nationally. The weakest period of employment during the recent downturn is reflected in the July 1958 designations; March 1959 is the latest date for which classifications are available.

The story of recession and recovery is somewhat different for each city since each "makes it living" in a different way. Those areas with large proportions of employment in nonmanufacturing activity or in the production of nondurables generally had the smaller declines in the 1957-58 downturn. From the first quarter of 1957 to the first quarter of 1958, U. S. manufacturing employment declined by 7.8 per cent; nonmanufacturing employment declined only 0.5 per cent. During the same period, employment in durable goods manufacturing fell 10.7 per cent while employment in nondurable goods manufacturing declined 3.7 per cent.

Largest employment declines occurred in manufacturing and durable goods production



In the Seventh Federal Reserve District, Des Moines and Madison are representative of those cities with large proportions of the labor force engaged in nonmanufacturing activity. The change of classification, from "B" to "C", reflected only mild weakening in their labor markets. Both cities showed their weakest employment

situation in March 1958. Yet the declines from March 1957 to March 1958 were only 2.7 per cent for Des Moines and 2.3 per cent for Madison. The relatively large proportions of employment in government service, trade and finance cushioned the declines in these areas.

The pickup in employment came relatively early in centers where employment is predominantly in the production of nondurables and in nonmanufacturing activities. Employment in nondurable goods manufacturing continued to improve during the first quarter of 1959 and output reached a new high. In nonmanufacturing lines, employment has exceeded first quarter 1957 levels.

A similar picture of slight recession declines occurred for the Quad Cities, Racine and Waterloo. Here the stability may be traced in part to a different source. Rising farm income and farm machinery production ("What recession?" *Business Conditions*, June 1958) helped to offset employment declines elsewhere in these economies.

But many Midwest communities experienced much larger declines in employment. And, even though recovery has been substantial for most areas, employment in many cen-

A — Critical labor shortage, unemployment less than 1.5 per cent, sizable labor gains expected, current labor shortage not due to seasonal factors.

B — Job opportunties slightly in excess of job seekers, unemployment between 1.5 and 2.9 per cent, some increases in employment expected, labor shortage may be seasonal.

C — Job seekers slightly more than job openings, unemployment between 3.0 and 5.9 per cent, no significant increases in employment expected, unemployment may be partly seasonal.

D — Job seekers in excess of job openings, unemployment between 6.0 and 8.9 per cent, expect no significant increase or declining employment, labor surplus not due to seasonal factors.

E — Job seekers considerably more than job openings, unemployment between 9.0 and 11.9 per cent, declining employment or no significant increase in labor requirements expected, labor surplus not due to seasonal factors.

F — Job seekers substantially in excess of job openings, unemployment 12.0 per cent or more, declining employment or no significant increase in labor requirements expected, current labor surplus not due to seasonal or temporary factors.

	March 1957	July 1958	March 1959
Illinois			
Chicago	B	D	D
Quad Cities	C	C	C
Peoria	B	E	C
Rockford	B	C	C
Indiana			
Fort Wayne	C	E	D
Indianapolis	B	D	C
South Bend	C	F	D
Terre Haute	E	D	D
Iowa			
Cedar Rapids	B	C	B
Des Moines	B	C	C
Michigan			
Battle Creek	C	D	D
Detroit	C	F	F
Flint	C	F	D
Grand Rapids	C	F	E
Kalamazoo	C	C	C
Lansing	C	E	D
Muskegon	D	F	F
Saginaw	C	E	D
Wisconsin			
Kenosha	D	D	C
Madison	B	C	C
Milwaukee	B	D	C
Racine	C	D	C

ters in the spring was still well below both the 1956 and 1957 levels. Fort Wayne, South Bend, Detroit, Flint, Grand Rapids, Lansing and Saginaw, even with substantial improvement, had fewer employed than in 1956.

However, economic adjustments usually do not occur quickly, or at the same rate in all sectors. Also, employment gains tend to lag gains in output, at least in the early stages of an upturn. As activity begins to pick up, hours worked per week are increased and output per hour usually rises quite rapidly as a result of improvements in production processes initiated during the downturn and the early stages of recovery. Since March 1958, average weekly hours of factory workers have increased from 38.6 to 40.1 nationally.

Cyclical or long-run adjustments?

For many cities in eastern Michigan, the more pronounced cyclical swings in employment and unemployment since 1953 have been accompanied by an upward trend in the proportion of the labor force unemployed. This area may be adjusting not only to short-run shifts in the markets for their products but also to possible longer-run changes.

For example, when defense spending shifted from emphasis upon tanks and heavy trucks to missiles and electronic devices, the localities of defense production shifted also. And the effects spread to the parts and materials suppliers as well as the prime contractors. Excess labor and plant capacity in some Seventh District areas can be traced to this kind of shift in demand. In some of the same areas, additional long-run adjustments are occurring as a result of decentralization of auto production and, temporarily at least, what appears to be a scaling down by consumers of the relative importance of expenditures for automobiles. An important side effect is the shifting pattern of demand for

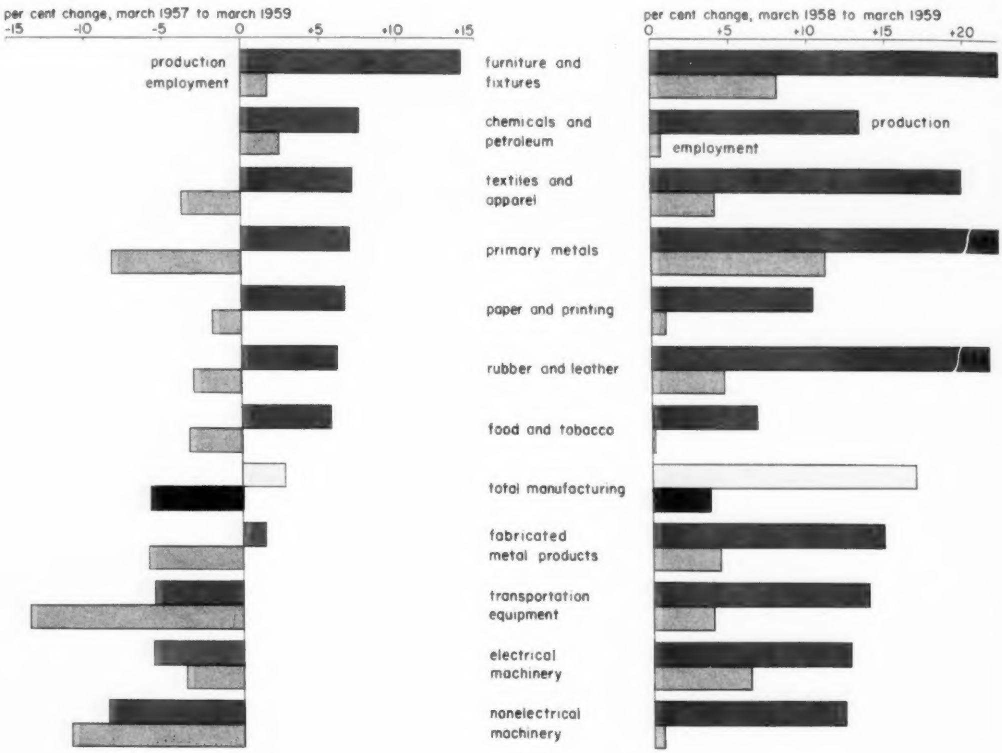
Rise in weekly hours slows increase in factory employment during early phase of recovery

automobiles. This shows up in the employment pictures in the "home cities" of American Motors and Studebaker Packard. Kenosha, in particular, has forged ahead of its 1957 level of employment and shows a rapidly improving situation.

Long-run changes in the demand for labor occur also as a result of advances in production techniques. As additional jobs are "mechanized," surpluses of certain types of labor may develop in individual areas. The impact upon employment may be similar to a shift in the demand for products produced in the area. Displaced workers must shift to other jobs in the same community, often requiring the development of new skills, or move to other areas where jobs are available.

No community is immune to possible adjustments to long-run or secular changes in demand for its goods. And, very often, a decline in the demand for one type of product is not accompanied with increased demand for another commodity that can be produced efficiently utilizing resources in the same lo-

Production increases outstrip employment gains in all major industries



cality. The employment situation in most areas will usually reflect the effects of both cyclical and longer run forces. Unfortunately, it is not possible to identify the relative importance of each, especially as it may affect employment prospects for individual skills or even individual workers.

One of three

Cedar Rapids is the only Midwest area—others are Washington and Honolulu—which carried a "B" classification in March, signifying that unemployment is low and that there are slightly more job opportunities than job seekers. With seasonal gains late in 1958 in food processing, which accounts for 15 per cent of Cedar Rapids employment, and later increases in earth-moving equipment and electrical equipment, unemployment has been reduced to a low level. The "B" designation is the same as in March 1957.

Five other Midwest areas—Racine, Kenosha, Kalamazoo, Terre Haute, and the Quad cities area in east central Iowa and northwest Illinois—carried designations in March which were equal to or more favorable than two years earlier. Between July 1958 and March 1959, 12 of the 22 classified

areas in the Seventh District had been upgraded by at least one letter designation.

Employment gains through the spring have been concentrated in durable goods manufacturing lines, both in the Midwest and in the nation. These include such industries as farm machinery, construction equipment, household appliances, railroad equipment, autos, trucks and trailers, and, of course, steel. These were the industries which had experienced the greatest declines and which have now bounced back, exceeding previous highs in some cases.

In the spring and summer, important seasonal increases in employment will occur in construction, food processing and recreational activities. But continuance of the broad employment upswing in many Midwest centers will depend on further improvement in the hard goods industries which provide the income supporting workers in trade, service and related lines.

Reductions in employment during the third quarter are almost certain in steel and automotive industries. However, new orders for most manufactured goods have been strong and backlogs are building again. Government reports suggest further gains in hiring by the capital goods and metal fabricating industries in the months ahead. For the year as a whole, the Department of Commerce estimates that sales of durable goods will exceed 1958 by 12 per cent with sizable increases expected for all major categories.

The declining small town?

The small town by and large has not participated in the rapid expansion of the American economy and the growth in the country's population during the past two or three decades. In Iowa, Illinois, Indiana, Michigan and Wisconsin, the number of people living in towns with population under 2,500 and located outside large urbanized areas remained relatively constant from 1930 to 1950. The smallest communities, those with fewer than 1,000 inhabitants, had 4 per cent fewer people in them in 1950 than in 1930. In contrast, the communities over 2,500 in the states of the Seventh District increased in population by 20 per cent from 1930 to 1950. Is the small town becoming an anachronism in the modern economy? Is its stagnation or decline inevitable?

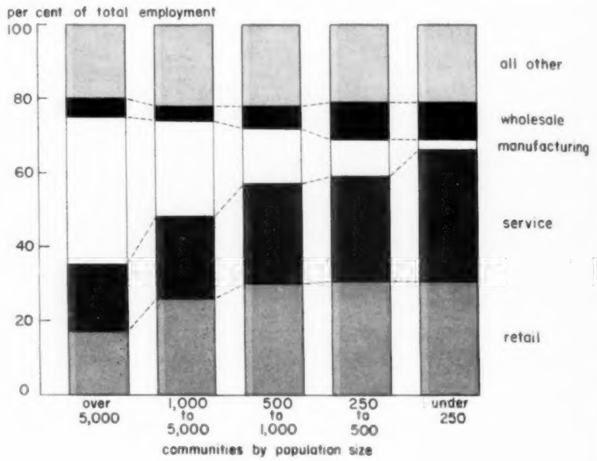
The outlook for all small towns is obviously not the same. Communities are like people—no two are exactly alike and their futures differ. To appraise the prospects for an individual community, one must understand how it makes its living at present. That is, what types of economic activities occur in the town? What gives vitality to such economic endeavor?

The Iowa small town

An examination of 53 Iowa communities ranging in population from around 100 to 30,000 indicates some of the typical economic features of small towns in the rural Midwest. The small Iowa community is an island surrounded by farms. The salient aspect of its economic life is its dependence on

this agricultural environment. Many people who have long since left the farms or small towns in which they were reared recall the town as the principal, if not the only, "trading post" for the surrounding farmers. It was the place where farm output was sold, where store goods were bought, and where, in many instances, there were small-scale manufacturing activities involving agricultural products or supplying farmers' needs.

In 53 Iowa communities the composition of employment differs with size



Small towns in Iowa still retain these economic functions, but farmers no longer need trade exclusively in their own nearby towns, as they had to fifty years ago. With the great improvements in transportation, larger trading centers with more varied merchandise lines have become accessible to farmers from relatively distant points, and it is now often advantageous for farmers to sell their output in more distant centers. Also, farm-oriented manufacturing has increasingly concentrated in the larger centers. As a result, the smallest Iowa communities seemingly have been left behind.

The composition of employment in a community is perhaps the best indication of the way in which a town's economy functions. For this group of 53 Iowa communities, there is a great deal of variance in employment composition. In general, retail, service and wholesale activities are more important to the community the smaller the size of the town. In contrast, manufacturing activity is unimportant as an employer in the smallest towns—it accounts for 40 per cent of employment in the Iowa towns studied with populations over 5,000 but only 3 per cent of total employment in the towns under 250.

The observer should not be misled into thinking that the extent of manufacturing in a community is an indication of the degree to which the town is independent of its agricultural environment. A major part of manufacturing activity for these towns is the processing of agricultural products. For larger communities, better than one-third of manufacturing activity centers around agricultural processing. For the smaller towns, especially those under 500, virtually all of their manufacturing employment is farm-oriented.

The smallest Iowa towns may have feed mills and creameries because of the abundance of readily available agricultural raw materials. However, the area in which the small town buys its raw materials and in which it sells its manufactured products is limited. Therefore, these enterprises are usually small and manufacturing is not an important part of the smaller town's economy. Nor is it a growing part of the small town's

economic activity. Because of declines in population and improvements in transportation, the size of the area in which feed sales are made or from which the milk supply is drawn often has been further restricted.

Advantages of scale

But the trend in the largest of the 53 Iowa communities, especially those over 5,000 in population, has been somewhat different. Larger markets resulting from increases in population and greater ease of transport have resulted in some increase over time in food processing. Moreover, other types of manufacturing activity which place emphasis upon the sales to farmers of such items as farm machinery, fertilizers, feed or seed are more favorably located in the larger town. Development of larger-scale operations which improve efficiency dictate expansion in existing centers in contrast to the establishment of new small plants elsewhere.

Moreover, the larger communities with their already established advantages of a larger labor supply, transportation facilities, better streets or cheaper water and electricity can attract other types of manufacturing activity, materials suppliers, specialized business services and a whole range of complementary activities in the retail and service trades. Being able to provide more efficiently a wider range of the desired goods and services to the rural areas, the larger town's markets expand to cover more and more of the countryside.

There are some unusual manufacturers for which transport costs for both raw materials and finished goods are very minor. They can be produced wherever the businessman who has developed the product happens to be located. Thus, the production of valentines, tally cards and screen patches, for example, in small Iowa towns is almost completely unrelated to the natural advantages of these communities.

It is upon such chance elements as these that some individuals base their hopes of arresting the decline of small towns. However, the efforts of the inventor, promoter or founder of such concerns will ordinarily be exercised in the more advantageous environment which is most commonly available in larger communities. Thus, hopes for growing employment opportunities in small towns are more soundly based if they can be tied to the natural advantages of the town.

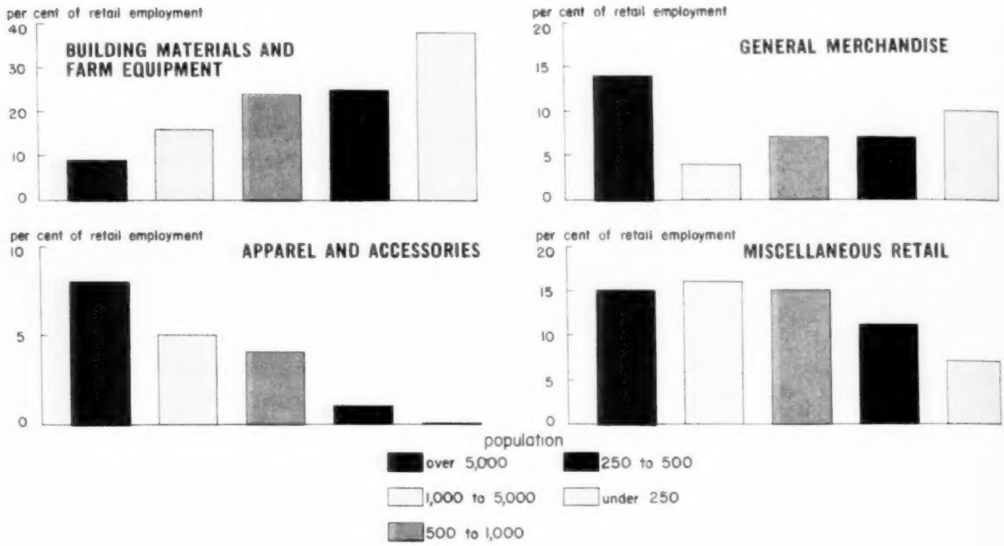
"Bulking up" farm output

Almost every small Iowa town has some portion of its labor force engaged in the wholesaling of agricultural products. The assembler of farm products is the wholesaler of the small community and almost all small Iowa towns have grain elevators and livestock buyers. Even the smallest communities have developed these wholesale functions because of the advantages of "bulking up" the output of many small producers before further handling.

Wholesale employment, at 10 per cent of total employment in towns under 500 and 7 per cent of total employment in towns under 1,000, is almost entirely composed of farm product assembly. It would seem that with increasing agricultural output the small community would tend to play a more important role in this area. However, the methods of handling livestock have already tended to reduce the farmer's use of the local livestock buyer. He has found that it is easier to ship by truck directly to the market and to make use of the livestock commission broker located there.

With the increase in grain output, a greater role for grain elevators in small towns would be expected. Even if more grain were stored

Size of community influences the make-up of retail employment . . .



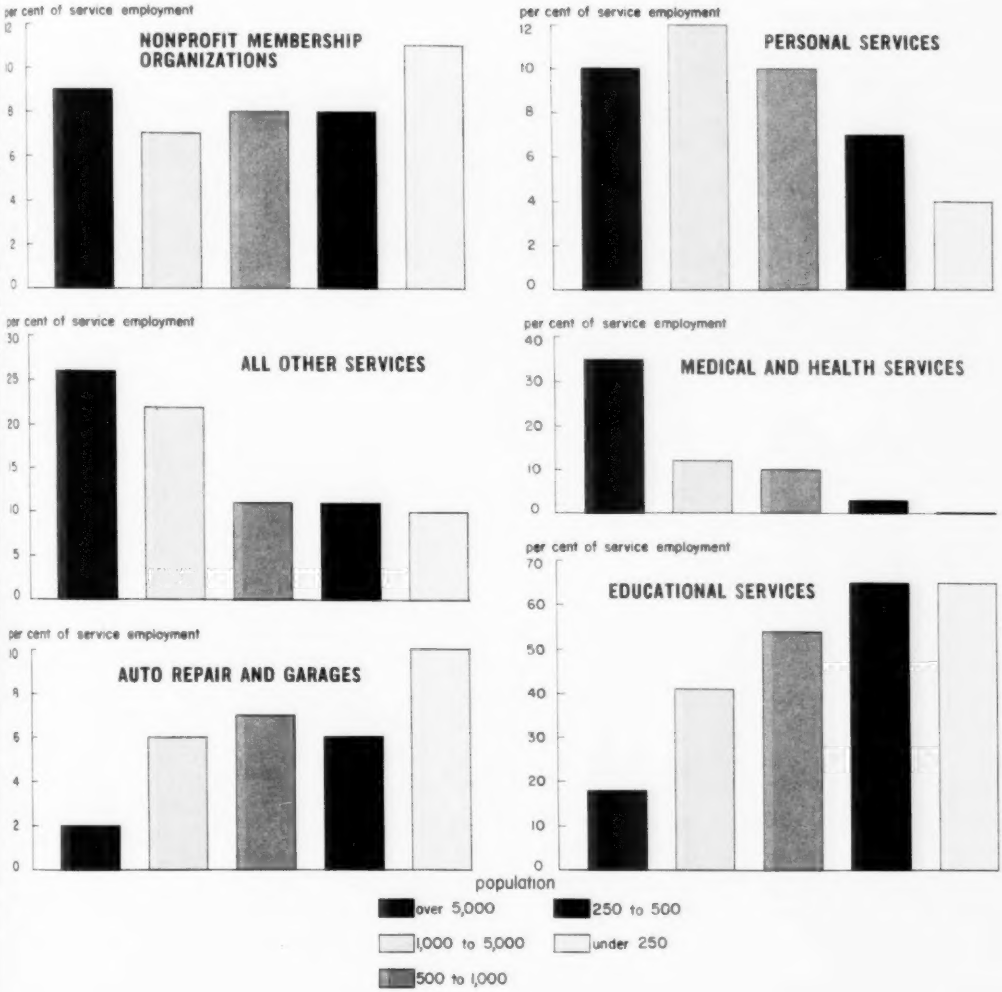
in small towns, there would be little increase in actual employment. Moreover, in performing the function of an assembler of grain for shipment elsewhere, the small town elevator may be at a competitive disadvantage. The farmer with a higher grade of grain prefers to ship to larger terminals, if not too distant, where grades are segregated and where, therefore, the price received is higher. Unless the small town elevator operator can do likewise, grain handling will probably continue to decline in some towns.

The rural trading area

The small town is in the position of finding its highly important rural trading area slowly eroding. The advent of rapid and easy automobile transportation has made the larger communities with their wider range of goods, services and recreational activities seem relatively "close by." Like a two-edged sword, the loss of trading areas forces a reduction in the goods and services which can be offered profitably, and, in turn, the reduction in shopping alternatives makes the larger communities seem even more attractive.

The effect of town size on the range of goods and services sold is amply illustrated by the distribution of employment in retail and service establishments in the 53 Iowa towns. Retailers selling specialized goods, or infrequently purchased "big ticket" items, require trading areas with sizable populations. Thus, employment in apparel, furniture and appliance stores and by automobile dealers declines sharply in importance along with the size of the town. In contrast, gasoline stations provide proportionately more jobs in smaller towns, since the trading area afforded by a rural crossroads is typically sufficient to make a gas station a profitable operation.

... and of service employment



Because of the existence of large department stores, the general merchandise group of stores accounts for an important share of total retail employment in larger Iowa towns. For small communities the trading area is hardly enough to support a department store, but the general store becomes its counterpart. By providing a variety of goods, the general store, in effect, combines the demand for a number of products, and the total sales volume is large enough to make the operation pay.

The least vulnerable small towns are those located in virtual isolation many miles from other communities. These towns have found their trading areas less encroached upon by large communities and tend to provide a wider range of goods and services than towns of similar size but located closer to other communities.

Although the smallest Iowa towns are far from being regional service centers, service employment is relatively important to them. Almost 35 per cent of total employment in towns under 250 and 29 per cent of total employment in towns under 1,000 are engaged in providing some type of service to the community and its surrounding agricultural area. This is largely due to the small town's role in education, churches and social organizations. Proximity to the consumer of these services is vital, and the small town has in the past served with ease the rural population surrounding it.

But declining trade areas are also making inroads into this important area of activity. Personal services such as cleaning, laundry, barber and beauty shops, medical services, legal services and banking services require larger populations than are available to most of the smallest communities. Consequently, the smaller communities are providing fewer and fewer of these services. This is also true for medical and health facilities. In the larger towns, 6 per cent of total employment is in medical and health facilities, while the smallest communities cannot support doctors and hospitals.

A significant source of employment in these small Iowa towns is education. For towns under 1,000, 17 per cent of the total employees are school teachers, janitors or educational supervisors. For communities under 500 in population, 19 per cent, and in towns under 250, 23 per cent of total employees are similarly occupied. For larger communities, the public or private school should remain an important part of economic activity. But the outlook for the smallest towns is not as clear cut. The advantage of the small town in providing educational facilities for the children of the surrounding rural population has tended to decline with the advent of the school bus. To reduce costs and improve facilities, some consolidation of schools has occurred. If this trend continues, smaller towns not well located in terms of the distribution of school age children will no longer be called upon to provide this service.

For the smallest communities, a reversal of recent trends in their economic roles does not appear to be "in the cards." The small towns that are the exception will be either satellites of an urban center or located in virtual isolation with respect to other communities.

Even in the latter case, they will provide employment only in a limited range of activities which take the maximum advantage of the agricultural environment. The general store and the gasoline station will remain as a necessary or convenient part of the rural landscape—as complements to the grain storage bins, the creamery, the repair shop and possibly the school and church.

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